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APPLICATION NO.	FILING DATE	FIRST NAMED INVENTOR	ATTORNEY DOCKET NO.	CONFIRMATION NO.
10/612,630	07/01/2003	Frederic Speed Bancroft	644.001	4078

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EXAMINER	
CHENCINSKI, SIEGFRIED E	
ART UNIT	**PAPER NUMBER**
3691	

MAIL DATE	DELIVERY MODE
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Please find below and/or attached an Office communication concerning this application or proceeding.

The time period for reply, if any, is set in the attached communication.

Office Action Summary	Application No.	Applicant(s)	
	10/612,630	BANCROFT, FREDERIC SPEED	
	Examiner	Art Unit	
	SIEGFRIED E. CHENCINSKI	3691	

-- The MAILING DATE of this communication appears on the cover sheet with the correspondence address --

Period for Reply

A SHORTENED STATUTORY PERIOD FOR REPLY IS SET TO EXPIRE *3* MONTH(S) OR THIRTY (30) DAYS, WHICHEVER IS LONGER, FROM THE MAILING DATE OF THIS COMMUNICATION.

- Extensions of time may be available under the provisions of 37 CFR 1.136(a). In no event, however, may a reply be timely filed after SIX (6) MONTHS from the mailing date of this communication.
- If NO period for reply is specified above, the maximum statutory period will apply and will expire SIX (6) MONTHS from the mailing date of this communication.
- Failure to reply within the set or extended period for reply will, by statute, cause the application to become ABANDONED (35 U.S.C. § 133). Any reply received by the Office later than three months after the mailing date of this communication, even if timely filed, may reduce any earned patent term adjustment. See 37 CFR 1.704(b).

Status

1)☒ Responsive to communication(s) filed on *01 July 2004*.

2a)☐ This action is **FINAL**. 2b)☒ This action is non-final.

3)☐ Since this application is in condition for allowance except for formal matters, prosecution as to the merits is closed in accordance with the practice under *Ex parte Quayle*, 1935 C.D. 11, 453 O.G. 213.

Disposition of Claims

4)☒ Claim(s) *1-26* is/are pending in the application.

4a) Of the above claim(s) _____ is/are withdrawn from consideration.

5)☐ Claim(s) *1-26* is/are allowed.

6)☒ Claim(s) _____ is/are rejected.

7)☐ Claim(s) _____ is/are objected to.

8)☐ Claim(s) _____ are subject to restriction and/or election requirement.

Application Papers

9)☐ The specification is objected to by the Examiner.

10)☐ The drawing(s) filed on _____ is/are: a)☐ accepted or b)☐ objected to by the Examiner.

Applicant may not request that any objection to the drawing(s) be held in abeyance. See 37 CFR 1.85(a).

Replacement drawing sheet(s) including the correction is required if the drawing(s) is objected to. See 37 CFR 1.121(d).

11)☐ The oath or declaration is objected to by the Examiner. Note the attached Office Action or form PTO-152.

Priority under 35 U.S.C. § 119

12)☐ Acknowledgment is made of a claim for foreign priority under 35 U.S.C. § 119(a)-(d) or (f).

a)☐ All b)☐ Some * c)☐ None of:

1.☐ Certified copies of the priority documents have been received.

2.☐ Certified copies of the priority documents have been received in Application No. _____.

3.☐ Copies of the certified copies of the priority documents have been received in this National Stage application from the International Bureau (PCT Rule 17.2(a)).

* See the attached detailed Office action for a list of the certified copies not received.

Attachment(s)

1) ☒ Notice of References Cited (PTO-892)
2) ☐ Notice of Draftsperson's Patent Drawing Review (PTO-948)
3) ☒ Information Disclosure Statement(s) (PTO/SB/08) Paper No(s)/Mail Date *7/01/03, 10/26/06*.
4) ☐ Interview Summary (PTO-413) Paper No(s)/Mail Date. _____ .
5) ☐ Notice of Informal Patent Application
6) ☐ Other: _____.

DETAILED ACTION

Claims

1. Claims 1 and 25 are rejected as PROLIX.

2173.05(m) Prolix

Examiners should reject claims as prolix only when they contain such long recitations or unimportant details that the scope of the claimed invention is rendered indefinite thereby. Claims are rejected as prolix when they contain long recitations that the metes and bounds of the claimed subject matter cannot be determined.

Claim Objections

2. Claim 25 is objected to because of the following informalities: Applicant has omitted subsection "v)" in claim element f) by jumping from iv) to vi), Appropriate correction is required.

Specification

3. OBJECTION

The abstract of the disclosure is objected to because it exceeds the maximum permitted length of 150 words, and because it contains references to the drawings which obscure the purpose of the Abstract. See MPEP § 608.01(b), which is duplicated here for Applicant's convenience:

> (b) A brief abstract of the technical disclosure in the specification must commence on a separate sheet, preferably following the claims, under the heading "Abstract" or "Abstract of the Disclosure." The sheet or sheets presenting the abstract may not include other parts of the application or other material. The abstract in an application filed under 35 U.S.C. 111 may not exceed 150 words in length. The purpose of the abstract is to enable the United States Patent and Trademark Office and the public generally to determine quickly from a cursory inspection the nature and gist of the technical disclosure.<

Correction is required.

Claim Rejections - 35 USC § 112

The following is a quotation of the first paragraph of 35 U.S.C. 112:

> The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same and shall set forth the best mode contemplated by the inventor of carrying out his invention.

4. Claims 1-28 are rejected under 35 U.S.C. 112, first paragraph, because the specification, while being enabling for some limitations of the independent claim 1, such as elements a), e), f) , h) and j) and the similar limitations in independent claim 25, but does not reasonably provide enablement for claim 1's elements b), c), d), g), i), k), l) and m) and the similar limitations in independent claim 25. The specification does not enable any person skilled in the art to which it pertains, or with which it is most nearly connected, because these limitations cannot be duplicated in a repeatable manner so that a plurality of independent practitioners could not come up with the same results of the invention commensurate in scope with these claims. Dependent claims 2, 3, 5, 6, 8, 9, 11, 13, 16 and 20 also lack enablement in the specification so that a plurality of independent practitioners could not come up with the same results of the invention commensurate in scope with these claims.

The following is a quotation of the second paragraph of 35 U.S.C. 112:

> The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

5. Claims 1-28 are rejected under 35 U.S.C. 112, second paragraph, as being indefinite for failing to particularly point out and distinctly claim the subject matter which applicant regards as the invention. Independent claims 1 and 25 and dependent claims 2, 3, 5, 6, 8, 9, 11, 13, 16 and 20 are indefinite for the reasons stated above in the rejections under 35 USC 112-1st paragraph. All of the dependent claims are rejected for

their dependencies on a rejected independent claims and/or a rejected dependent claims.

Claim Rejections - 35 USC § 103

The following is a quotation of 35 U.S.C. 103(a) which forms the basis for all obviousness rejections set forth in this Office action:

> (a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

The factual inquiries set forth in Graham v. John.Deer & Co., 383 U.S. 1,148 USPQ 459 (1966), that are applied for establishing a background for determining obviousness under 35 U.S.C. 103(a) are summarized as follows:

1. Determining the scope and contents of the prior art.
2. Ascertaining the differences between the prior art and the claims at issue.
3. Resolving the level of ordinary skill in the pertinent art.
4. Considering objective evidence present in the application indicating obviousness or nonobviousness.

6. Claims 1-28 are rejected under 35 U.S.C. 103(a) as being unpatentable over Roberts et al. (US Patent 6,292,788 B1, hereafter Roberts), Kossovsky et al. (Pg. Publication 2002/0002523 A1, hereafter Kossovsky), Blanz et al. (US Patent 6,847,946, hereafter Blanz) and Official Notice.

Re. Claim 25, Roberts discloses that "Numerous attempts have been made to provide real estate investments that are transferable, have a steady income stream, require low management effort, and are divisible. One way of gaining these benefits is by investing in a real estate investment trust (a "REIT"). A REIT is a company that buys, sells, manages, and develops real estate or real estate mortgages on behalf of its

investors. Shares in a REIT may be purchased, or (for some REITS) acquired indirectly in exchange for property, as described below. These shares are often publicly traded on major exchanges, and have characteristics similar to the characteristics of shares in any other company. For example, the shares are easy to liquidate, and often provide a reasonably steady stream of income through dividends.

A real estate investor goes through a two-step process if he or she seeks to use a REIT to take advantage of a tax-exempt transaction. First, the investor contributes the real estate property to a partnership owned by the REIT. Next, at such time as the investor elects to liquidate his or her interest, he or she exchanges the partnership interest for REIT shares. The second exchange is a taxable exchange and the investor may not utilize IRC .sctn.1031 to acquire other real estate in a tax exempt transaction. Once the investor completes the first step the only option the investor has is to acquire REIT shares in a taxable transaction.

Basically, shares in a REIT are simply shares in a company--not a deeded ownership interest in specific commercial or investment real estate. Thus, individual shareholders in a REIT may not be able to exert much control over the size or investment quality of the holdings of the REIT over a long term. Also, the market value of the REIT shares may fluctuate differently than the market value of the assets owned by the REIT. In addition, an IRC .sctn.1031 exchange cannot be used to defer the taxes on an exchange of investment property for shares in a REIT. REITs therefore do not provide a way to convert an interest in real estate into an investment with more desirable characteristics without incurring significant market risk and tax consequences." (Col. 2, l. 41 – Col. 3, l. 11).

Roberts therefore discloses a method for forming an REIT, exchanging property in REIT formation process, following tax regulations to motivate and set the bounds of transactions; having the REIT own the properties, having the REIT acquire additional real estate (claim element m)), inherently focusing on cash flow to make the REIT venture work.

Roberts does not explicitly disclose the many details and options of administering and financially operating an REIT, such as triple net leases, non-recourse mortgage loans, the use of these facilities in the context of REIT's, sale-leaseback facilities, The examiner takes Official Notice that the following practices and facilities and other more claimed details were well known at the time of Applicant's invention:
Assembling a group of prospective investors in real estate transactions;
selecting participants in a real estate transaction and investment such as in a REIT;
making use of the improved leverage by combining a group of assets into a larger scale and enjoying the benefits thereof, such as lower borrowing terms;

making use of the investment incentives creates by special tax laws such as REIT's;

engaging in sale-lease-back transactions in real estate;

determining the fair market value of real estate by using one or more real estate appraisers;

transferring title to real estate;

performing sale lease-back transactions for a combination of cash and secured notes;
obtaining non-recourse loans using real estate as the collateral;
using first and second liens in order to secure two parties; calculating cash flow;
employing a manager for a real estate umbrella entity such as an REIT entity;
using reappraisals to increase borrowing leverage when the property values have risen;
periodically renewing lease agreements; investing freed-up cash assets to invest in additional income producing assets;
distributing the bulk of investment income to the owners of a financial entity such as a REIT.
Evidence of some of these well known practices and facilities are disclosed as follows: *
* Non-recourse loans in the context of an REIT (Kossovsky, REIT's - p. 4, [0058]; Non-Recourse Loans - [0127]-l. 3; p. 8, [0099]-l. 14;).
* Triple net leases (Blanz, Col. 2, ll. 32-37).

Therefore, it would have been obvious to an ordinary practitioner of the art at the time of Applicant's invention to have combined the art of Roberts, Kossovsky, Blanz and

Official Notice to establish a method for consolidating independent owners of distribution warehouses into a Real Estate Investment Trust (REIT), motivated by a desire to provide methods of investing in real estate that provide safety and a steady income stream (Roberts, Col. 3, ll. 35-37).

Roberts does not explicitly disclose the limitations of claims 2-24 and 26-28. However,

Re. Claims 2-24 and 26-27:

The following limitations would have been obvious to the ordinary practitioner at the time of Applicant's invention:

2. wherein the terms of the sale-leaseback agreement obligate each participant to renew the lease for the participant's warehouse at least every seven years. (It would have been obvious to the ordinary practitioner that lease terms have to have time limits, and tax and other considerations help to decide the exact amount of time.).

4. the reappraising of each warehouse is conducted by at least one appraiser selected by the lender and wherein the REIT pays for cost of reappraising the warehouses. (f an REIT has been funded with working capital it would have been obvious to have the REIT pay for the appraisals since the REIT is owned by the members whose facilities are to be appraised..).

5. The method according to claim i, wherein each lease agreement is for a term of at least seven years. (An ordinary practitioner would have known that lease terms have time limits, and tax and other considerations help to decide the exact amount of time period).

6. wherein each lease agreement is a triple-net lease so that the rent paid by the participants to the REIT equals or is greater than a scheduled debt service on the non-recourse mortgage loan. (if participant lease revenue is the only source of funding the debt service then this is obviously what is needed).

7. wherein the rent is established by a method comprising the steps of:

a) determining an annual debt service amount for the non- recourse mortgage loan;

b) determining a total square footage of all the warehouses leased by the REIT;

c) dividing the annual debt service amount by the total square footage to derive a first component price per square foot;

d) adding to the first component a second component and a third component, the second component being an amount dedicated for use by the REIT to pay for general and administrative expenses of the REIT and the third component being an amount dedicated for use by the REIT as a working capital and to permit the REIT to make interest payments and cash distributions to each participant; the addition of the second and third components to the first component resulting in a formula rental price per square foot; and

e) multiplying the formula rental price per square foot by a square footage of the warehouse leased to the participant to derive an annual rent to be paid by the participant to the REIT. (These are one set of obvious administrative steps for determining participants' rent payments for establishing positive cash flow in the scheme.).

8. wherein the second component is at least 50 cents per square foot (This would have been obvious if required to fulfill the purposes and positive cash flow of the venture.).

9. The wherein the third component is at least 25 cents per square foot. (This would have been another obvious option if it is required or it satisfies the fulfillment of the purposes and positive cash flow of the scheme.).

13. wherein each participant's ownership interest in the REIT is a prorata share of outstanding shares of the REIT, the prorata share being calculated by dividing the appraised fair market value of the participant's warehouse by a total appraised fair market value of all of the participants' warehouses. (This would have been one of the most obvious ways of assigning shares).

14. wherein each participant continues to pay maintenance expenses, insurance, and ad valorum taxes accruing from the participant's warehouse after transfer of the title thereof to the REIT. (This would have been one of the most obvious ways of handling these expenses, since they follow the path of responsibility and the income stream derived from each warehouse operation).

15. The method according to claim I, wherein if the participant has entered into a lease for the participant's warehouse with a distribution company controlled by the participant,

the lease is cancelled before the participant transfers title in the warehouse to the REIT. (This is obvious for legal reasons).

16. The method according to claim I, wherein steps (i)-(1) occur at least every seven years. (This is obvious, especially if lease terms and/or refinancings occur on such a schedule).

17. wherein the REIT purchases each participant's warehouse for a cash payment to the participant of an amount that is 70% to 80% of the appraised fair market value of the warehouse leaving a balance owed and issues a secured note payable to the participant for the balance owed. (This is an obvious option to make the cash flow of the plan work for the venture).

18. wherein the secured note provides that the REIT will pay interest accruing on the balance owed to the participant in monthly installment payments. (Monthly installment payments would have been obvious because they are the most common payment schedule and because they provide a source of revenue for the participants).

19. wherein the secured note provides that the REIT will pay the balance owed in full to the participant at the time the REIT obtains the new non-recourse mortgage loan at the end of an initial seven-year lease term. (This is the most obvious repayment option for the REIT plan for all the parties since it keeps all the parties whole in each phase of the project).

21. wherein the secured note is secured by a second lien on the warehouse. (Such a security arrangement for the participant would have been the most obvious in view of the lender having a first lien).

22. wherein the non-recourse mortgage loan issued to the REIT finances the cash payment made by the REIT to each participant. (This is obvious given the structure of this plan).

24. wherein the at least one investment comprises income producing real estate. (It would have been obvious in an REIT scheme to make such an investment in real estate).

26. The method according to claim 25, wherein the manager has a 1% ownership interest in the REIT and each participant's ownership interest in the REIT is a prorata

share of a remaining 99% interest of the REIT, the prorata share being calculated by dividing the appraised fair market value of the participant's warehouse by a total appraised fair market value of all of the participants' warehouses. (1. The awarding of an ownership interest in the REIT to the manager of the REIT represents a well known step in order to maintain an incentive on the part of the manager to assure the REIT's financial success. 2. The prorate shares for participants are one of the most rational and obvious methods for apportioning ownership in such an arrangement).

27. further comprising the step of the REIT purchasing and obtaining title to a leasehold improvement made by the participant to the warehouse leased to the participant, the REIT paying the participant an amount that is the participant's original cost for the leasehold improvement, the REIT's purchase of the leasehold improvement being accomplished at the time the lease agreement is renewed. (such leasehold improvement financing was well known. Timing it at the anniversary of lease renewal would have been the most obvious timing).

The following limitations were well known at the time of Applicant's invention:

3. the appraising of each participant's warehouse is conducted by at least one appraiser selected by the lender and wherein each participant pays for cost of appraising the participant's warehouse. (Lenders were well known to want such an appraiser to be selected by them to be assured of an honest appraisal, and ventures such as e new REIT have not yet been funded, so the participants are the logical party to pay for the appraisal costs, since they have the motivation to establish the REIT.).

10. wherein the sale-leaseback agreement and the lease agreement are contemporaneously entered into by the REIT and the participant. (Contemporaneous activation of agreements was well known.).

11. wherein the non-recourse mortgage loan has a term of at least seven years and is serviced on at least a seven-year debt payment schedule.

12. wherein the REIT pledges the warehouses and an assignment of the lease agreements to the lender as collateral for the non-recourse mortgage loan, the lender having a first primary lien on the warehouses.

20. wherein the interest provided in the secured note is set at one percent above a

prime rate that exists when the REIT issues the secured note. (An interest rate formula related to the prime rate is a well known formula).
23. wherein a board of directors of the REIT selects the at least one investment. (This was a well known method for such an arrangement, since a board would want to oversee such a material investment to protect the share holders).
28. the step of making an initial public offering of stock in the REIT on a stock exchange was well known, as was the initial public offering being approved by a board of directors of the REIT.

Therefore, re. Claims 2-24 and 26-27, it would have been obvious to an ordinary practitioner of the art at the time of Applicant's invention to have combined the art of Roberts, Kossovsky, Blanz and Official Notice to establish a method for consolidating independent owners of distribution warehouses into a Real Estate Investment Trust (REIT), motivated by a desire to provide methods of investing in real estate that provide safety and a steady income stream (Roberts, Col. 3, ll. 35-37).

Conclusion

7. Any inquiry concerning this communication or earlier communications from the Examiner should be directed to Siegfried Chencinski whose telephone number is (571)272-6792. The Examiner can normally be reached Monday through Friday, 9am to 6pm.
If attempts to reach the Examiner by telephone are unsuccessful, the Examiner's supervisor, Alexander Kalinowski, can be reached on (571) 272-6771.

Information regarding the status of an application may be obtained from the Patent Application Information Retrieval (PAIR) system. Status information for published applications may be obtained from either Private PAIR or Public PAIR. Status information for unpublished applications is available through Private PAIR only. For more information about the PAIR system, see http://pair-direct.uspto.gov. Should

you have questions on access to the Private PAIR system, contact the Electronic Business Center (EBC) at 866-217-9197 (toll-free).

Any response to this action should be mailed to:

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or Faxed to (571)*273-8300* [Official communications; including After Final communications labeled "Box AF"]

or Faxed to *(571) 273*-6792 [Informal/Draft communications, labeled "PROPOSED" or "DRAFT"]

Hand delivered responses should be brought to the address found on the above USPTO web site in Alexandria, VA.

SEC

March 27, 2008

/Narayanswamy Subramanian/
Primary Examiner
Art Unit 3691